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TO SECSTATE WASHDC 243

INFO USMISSION USBERLIN UNN

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E.O. 11652: N/A

TAGS: EGEN, GE

SUBJ: GDR 1975 ECONOMIC PLAN AND BUDGET

REF: BERLIN A-2, DECEMBER 27, 1974

1. SUMMARY: THE GDR ECONOMIC PLAN AND BUDGET FOR THE
LAST YEAR OF THE CURRENT FIVE-YEAR PERIOD APPEAR TO
PRESAGE REDUCED GROWTH FROM 1974 LEVELS IN VIRTUALLY
ALL SECTORS OF THE ECONOMY; AND A FEW AREAS OF ECONOMIC
ACTIVITY MAY EVEN EXPERIENCE REAL DECLINES. WHILE THE
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GDR LEADERSHIP HAS STRESSED THE IMPORTANCE OF FULFILLING

THE "REALISTIC" GOALS OF THE LAST ANNUAL PLAN IN THE 1971-75 PERIOD, THE ABSENCE OF A REFERENCE TO MEETING FIVE-YEAR PLAN (FYP) OBJECTIVES MAY REFLECT CONCERN THAT CONDITIONS IN 1975 COULD PRECLUDE FULFILLMENT OF SOME FYP GOALS. END SUMMARY.

2. IN HIS REMARKS TO THE 13TH PLENUM OF THE SED CENTRAL COMMITTEE LAST DECEMBER, FIRST SECRETARY HONECKER PROJECTED ECONOMIC RESULTS FROM 1974 BASED ON THE FIRST TEN MONTHS ACHIEVEMENTS. THE SOLE EXCEPTION TO UNIFORMLY SATISFACTORY REPORTED STATISTICAL RESULTS WAS THAT OF NET MONEY RECEIPTS OF THE POPULATION. FIGURES WERE NOT PROVIDED FOR CONSTRUCTION, INVESTMENTS AND FOREIGN TRADE: BUT CRITICISM LEVELED AT THESE SECTORS IN HONECKER'S NARRATIVE COULD INDICATE THAT ACCEPTABLE PROGRESS HAD NOT BEEN ATTAINED. AGRICULTURE APPARENTLY HAD A BANNER YEAR: MILK (8.9 PERCENT), MEAT (8.6 PERCENT) AND EGG (13.9 PERCENT) PRODUCTION WERE UP MARKEDLY OVER 1974 AND SUBSTANTIALLY EXCEEDED PLAN GOALS. THE GRAIN HARVEST AVERAGED A RECORD YIELD OF ALMOST 40 DECITONS PER HECTARE. HOEVER, HEAVY RAINS AND FLOODING IN MANY PARTS OF THE GDR DURING THE CLOSING WEEKS OF 1974 DISRUPTED NORMAL MANUFACTURING AND TRANSPORTATION ACTIVITIES AND MAY HAVE RESULTED IN LOWER PRODUCTION FIGURES THAN THOSE CITED BY HONECKER.

3. PREMIER SINDERMANN, IN PRESENTING THE ECONOMIC PLAN FOR 1975 TO THE VOLKSKAMMER LATER IN DECEMBER, STRESSED THE NOW WELL-KNOWN REFRAIN: FRUGALITY, BETTER UTILIZATION OF AVAILABLE RESOURCES, IMPROVED QUALITY AND REDUCED IMPORTS. AT THE SAME TIME, SINDERMANN AND OTHER GDR LEADERS RESTATED THEIR COMMITMENT TO THE "HAUPTAUFGABE" OR "PRIMARY TASK" ENUNCIATED BY THE VIIITH PARTY CONGRESS IN 1971; AN IMPROVED STANDARD OF LIVING THROUGH EXPANDED OUTPUT AND INCREASED PRODUCTIVITY. IN 1975 NATIONAL INCOME IS PROJECTED TO GROW BY 5.5 PERCENT (1974; 5.4 PERCENT) TO MARKS 141.2 BILLION, A CONSIDERABLY LOWER OBJECTIVE THAN THE 6.3 PERCENT GROWTH ACTUALLY ACHIEVED IN PAST YEAR. INDUSTRIAL PRODUCTION IS TO EXPAND BY 6.3 PERCENT (1974 PLAN: 6.7 PERCENT ACHIEVED 7.5 PERCENT). LABOR PROD

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DUCTIVITY
GROWTH OF 5.6 PERCENT (1974; 6.0 PERCENT) IS TO COMPENSATE FOR 60,000 NON-EXISTENT WORKERS, WHILE CONSTRUCTION ACTIVITY IS TO EXPANDED BY 5.0 PERCENT (1974; 5.4 PERCENT). FOREIGN TRADE TURNOVER IS SLATED TO INCREASE BY 9.1 PERCENT (1974; 10.0 PERCENT). THE UNCERTAINTIES OF THE INTERNATIONAL ECONOMIC SITUATION, PARTICULARLY THE INCREASED COST OF NON-CEMA IMPORTS ON WHICH THE GDR IS INCREASINGLY DEPENDENT, CLEARLY

POSE VEXING PROBLEMS FOR GDR PLANNERS. SINDERMANN STRESSED THE IMPORTANCE OF INCREASING THE QUANTITY AND QUALITY OF EXPORTS IN ORDER TO OFFSET THESE HIGHER IMPORT BILLS, BUT THE SUCCESS OF THIS EFFORT IS DOUBTFUL.

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4. THE BUDGET FOR 1975, ONLY RECENTLY AVAILABLE, IS SLIGHTLY IN SURPLUS, RECEIPTS AND EXPENDITURES BOTH BEING 6.5 PERCENT HIGHER THAN IN 1974. MONIES ALLOCATED FOR THE SUBSIDIZATION OF RENTS AND PRICES ARE SLATED TO GO UP IN ABSOLUTE TERMS, BUT THE RATE OF INCREASE IS LOWER

THAN THAT OF TOTAL EXPENDITURES. AS A RESULT, THIS LINE ITEM DECREASED AS A PERCENTAGE OF TOTAL EXPENDITURES FOR THE BTHIRD STRAIGHT YEAR. ALSO OF CONSIDERABLE INTEREST IS THE APPARENT SLASHING OF BUDGET FUNDS FOR RESEARCH AND INVESTMENT. THIS LINE ITEM, WHICH HAD LIMITED OFFICIAL USE

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EXPERIENCED DISPGOPORTIONATELY HIGH INCREASES IN RECENT YEARS (1972; MARKS 3.0 BILLION; 1973; MARKS 5.2 BILLION; AND 1974; MARKS 6.7 BILLION), WAS PARED BY 85 PERCENT TO JUST OVER MARKS 1 BILLION.

5. COMMENT: LOWER PRODUCTION LEVELS FOR 1975 MAY IN SOME INSTANCES REFLECT HIGHER THAN PLANNED RESULTS FOR 1974. BUT SOME 1975 TARGEST ARE LOWER THAN CORRESPONDING ONES SET FOR 1974, EVEN WHEN THE LATTER PLANS WERE NTO FULFILLED. A NOTABLE EXAMPLE IS INVESTMENT: ALTHOUGH SUPPOSED TO INCREASE BY 5.3 PERCENT IN 1974, GROSS FIXED INVESTMENT GROWTH GROBABLY DID NOT EXCEED 3 PERCENT, AND 1975 GROWTH IS PLANNED FOR 4.4 PERCENT. THE SIGNIFICANT DECREASE IN THE BUDGET LINE ITEM FOR INVESTMENTS NOTED IN PARA 4 ABOVE COULD INDICATE THAT THE 1975 GOAL WILL AGAIN NOT BE ATTAINABLE. EVEN IF IT IS, IT ALMOST CERTAINLY WOULD REPRESENT A LOWER REAL LEVEL OF INVESTMENT DUE TO THE INCREASED COST OF FOREIGN AND DOMESTICALLY, PRODUCED CAPITAL GOODS. CONSIDERING ITS INADEQUATE INFRASTRUCTURE AND THE PARTIALLY COMPLETED STATE OF MANY INDUSTRIAL INSTALLATIONS WHICH ARE NEEDED TO PRODUCE FOR FUTURE FOREIGN AND DOMESTIC CONSUMPTION, THE GDR CAN ILL AFFORD TO THROTTLE BACK ON INVESTMENTS. THEREFORE, IT MAY BE THAT A SUBSTANTIAL ADDITIONAL INVESTMENT COMPONENT IS HIDDEN IN THE LARGE "OTHER EXPENDITURES" BUDGET LINE ITEMS WHICH GREW BY MARKS 17 BILLION BETWEEN 1973 TO 1975, OR FROM 45 PERCENT OF BUDGET ESPENDITURES. TO 54 PERCENT.

6. ANOTHER EXPLANATION FOR THIS APPARENT MYSTERY COULD BE THAT THE "OTHER EXPENDITURES" LINE CONTAINS ADDITIONAL FUNDS FOR MAINTAINING PRICE AND RENT STABILITY. THIS IS UNLIKEY, HOWEVER, SINCE THE SED WOULD HAVE NO REASON TO HIDE SUCH POPULAR MEASURES. INDEED, CONSIDERING THE RELATIVELY SMALLER AMOUNTS AVAILABLE FOR SUBSIDIES, THE GDR MAY POSSIBLY ACCELERATE ITS PRACTICE OF RAISING PRICES ON "NEW" OR "IMPROVED" PRODUCTS AND ON "NEW HOUSING." WITH PRIVATE SAVINGS ESTIMATED TO BE IN THE VICINITY. OF MARKS 80 BILLION, THE GDR IS LIKELY TO BE MORE

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CONCERNED WITH ELIMINATING THIS OVERHANG OF PURCHASING
POWER RATHER THAN CONTRIBUTING TO IT STILL FURTHER.
SUCH AN OBJECTIVE, HOWEVER, COULD POSE A REAL DILEMMA
FOR THE GDR IN 1975. THERE WILL BE LIMITS TO THE PRICE
INCREASES WHICH WILL BE POLITICALLY FEASIBLE. THERE
WILL ALSO BE LIMITS TO THE DOMESTIC AND FOREIGN GOODS
WHICH CAN BE MADE AVAILABLE TO THE CONSUMER.COOPER

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